

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 AID-05 CIAE-00 COME-00  
EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00  
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05  
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PRS-01 PA-01 EUR-12 INT-05 DODE-00 /106 W  
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P 251455Z APR 77

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 4918

C O N F I D E N T I A L SECTION 1 OF 2 KINGSTON 1929

E.O. 11652: GDS

TAGS: PFOR, EFIN, EAID, JM

SUBJECT: JAMAICA'S ECONOMIC CRISIS, THE PRODUCTION PLAN, IMF  
ASSISTANCE AND USG ASSISTANCE

1. SUMMARY: APRIL 23 BANK OF JAMAICA GOVERNOR G. ARTHUR BROWN, DURING VISIT TO HIS HOME BY CHARGE, OFFERED FOLLOWING COMMENTS AND PLEAS FOR HELP VIS-A-VIS JAMAICA'S ECONOMIC CRISIS, THE EMERGENCY PRODUCTION PLAN UNVIELED THE PREVIOUS EVENING BY PM MANLEY (SEPTTEL REPORTS) AND THE IMF'S AND USG'S ROLES VIS-A-VIS THE FORMER. HE DESCRIBED THE MODERATE CHARACTER OF THE PRESENTATION AND ITS SUBSTANCE AS A MAJOR VICTOR FOR MODERATE FORCES WITHIN THE GOJ. HOWEVER, THE ECONOMIC SITUATION IS NOW SO CRITICAL THAT THE GOJ WILL BEGIN DEFAULTING ON MAJOR FOREIGN OBLIGATIONS IN LATE MAY UNLESS SHORT-TERM COMMERCIAL CREDITS CAN BE ARRANGED IN NEXT FEW WEEKS. TO OBTAIN SUCH CREDITS, IMF MUST REACT FAVORABLY TO DEVALUATION AND OTHER MEASURES HERE, AND SIGNAL (HOWEVER INFORMALLY AND QUIETLY) TO BANKS THAT IMF WILL BE ASSISTING JAMAICA. USG ASSISTANCE IN THIS AND OTHER AREAS REQUESTED. BROWN PLED THAT THIS IS LAST CHANCE FOR MODERATE FORCES IN JAMAICA. THE RADICAL LEFT IS WAITING IN THE WINGS SHOULD THEVRESENT COURSE OF  
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MODERATION AND TRADITIONAL SOLUTIONS FAIL. END SUMMARY.

2. BROWN DESCRIBED MANLEY'S APRIL 22 PRESENTATION OF THE EMERGENCY PRODUCTION PLAN-- BOTH SUBSTANCE AND RHETORIC -- AS A MAJOR VICTORY FOR MODERATE FORCES WITHIN THE GOJ AND THE PNP. HE HAD GIVEN UP ALL HOPE THIS PAST JANUARY AND FEBRUARY OF MANLEY EVER RETREATING FROM THE EXTREME POSITIONS HE

WAS TAKING AT THAT TIME. BUT HE NOW IS CONVINCED THAT THE RETURN TO MODERATE AND MORE TRADITIONAL APPROACHES TO JAMAICA'S ECONOMIC CRISIS IS MORE THAN A MERE TACTICAL RETREAT. RATHER, MANLEY IS GENUINELY CONVINCED "THAT HE HAD BEEN HAD" BY HIS LEFT IN TERMS OF: (A) THE "COVERUP" OF THE SERIOUSNESS OF THE SITUATION HE NOW BLAMES THEM FOR; (B) THE DEGREE TO WHICH THEY OVERSOLD TO HIM THE BENEFITS AND POSSIBILITIES OF "SELF-RELIANCE"; AND (C) THE POSSIBILITIES FOR ASSISTANCE FROM MOSCOW AND "OTHER SOCIALIST SOURCES". MANLEY NOW IS FULLY AWARE OF THE SCOPE OF THE PROBLEM. HE IS CONVINCED OF THE NECESSITY TO PURSUE WITH URGENCY "MORE TRADITIONAL APPROACHES AND SOLUTIONS". THE FAILURE OF THE RADICALS WITHIN AND WITHOUT THE GOJ TO DELIVER (AS THEY HAD PROMISED EARLIER IN THE YEAR) AN EMERGENCY PRODUCTION PLAN WHICH MADE ANY SENSE AT ALL --OR WHICH OFFERED ANY WAY OUT OF JAMAICA'S CURRENT DILEMMA-- WAS THE "NAIL IN THE COFFIN" VIS-A-VIS RADICAL INFLUENCE ON MANLEY. MOREOVER, BROWN SAID, MANLEY HAD HAD THE GOOD GRACE TO APOLOGIZE TO HIM FOR THE ABUSE HEAPED ON HIM EARLIER, AND WENT OUT OF HIS WAY TO PAY TRIBUTE TO BROWN DURING THE PARLIAMENTARY PRESENTATION OF THE "PRODUCTION PLAN".

3. BROWN CAUTIONED, HOWEVER, THAT MANLEY IS ERRATIC AND RETAINS AN "ESSENTIALLY ROMANTIC AND NERVE LEFTIST PHILOSOPHY OF LIFE". THUS THE PRESENT COMMITMENT TO A MODERATE COURSE COULD EVAPORATE QUICKLY SHOULD THAT COURSE FAIL TO DELIVER. "THE REAL RADICALS, CONFIDENTIAL

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LIKE DUNCAN, ARE WAITING IN THE WINGS AND EXPECT TO BE ABLE TO SAY "WE TOLD YOU SO".

4. THE IMMEDIATE PROBLEM, ACCORDING TO BROWN, IS THAT BY LATE MAY, UNLESS THE IMF AND OTHERS ARE FORTHCOMING IN SOME FASHION, THE GOJ WILL BEGIN A MASSIVE DEFAULT ON GOVERNMENT FOREIGN DEBTS. THE FIRST DEFAULT COULD BE ON MAY 22 WHEN A SIX-MONTH \$25 MILLION CANADIAN LOAN IS DUE FOR FULL REPAYMENT. DEFAULT CAN BE AVOIDED ONLY IF SHORT-TERM COMMERCIAL CREDITS CAN BE ARRANGED BETWEEN NOW AND THEN, OR OTHER NEW LOANS ARRANGED. HE IS GOING TO TRINIDAD APRIL 24 TO SEEK ASSISTANCE THERE. BUT THE PRIMARY HOPE IS FOR AN EARLY AGREEMENT WITH THE IMF TO ASSIST. ALTHOUGH THE IMF MAY NOT BE ABLE TO TAKE FORMAL ACTION BY THEN (\$45-50 MILLION IS HOPED FOR FROM IMF THIS YEAR), AN INFORMAL AGREEMENT TO ASSIST MAY BE ENOUGH IF THAT AGREEMENT IS SIGNALLED TO COMMERCIAL BANKS BY THE IMF. SIMILARLY, A CLEAR SIGNAL FROM THE USG THAT IT WILL

BE HELPING COULD BE A MAJOR FACTOR "EVEN IF FORMAL AGREEMENTS AND MONEY COME MONTHS LATER".

5. COMMENTING ON HIS DISCUSSIONS WITH THE IMF IN WASHINGTON LAST WEEK, HE SAID THAT "SOME MUSCLE" MAY HAVE TO BE APPLIED BY THE USG AND OTHERS TO HELP OUT. THE IMF IS NOT SATISFIED WITH THE TWO-TIEW EXCHANGE SYSTEM ANNOUNCED APRIL 22 Y BANLEY. THE IMF WANTED EITHER: (A) A 37 PERCENT COMPLETE DEVALUATION; OR (B) (IF THERE HAD TO BE A TWO TIER SYSTEM) A 50 PERCENT DEVALUATION OF ONE TIER. HE ASKED CHARG TO ASK DEPARTMENT TO EXERCISE WHATEVER INFLUENCE IT COULD ON IMF TO GO ALONG WITH THE CURRENT AND OTHER MEASURES ANNOUNCED BY MANLEY. " THE IMF SIMPLY MUST UNDERSTAND THAT MANLEY AND THE GOJ HAVE GONE AS FAR AS THEY CAN GOP POLITICALLY. ANYTHING FURTHER WOULD GIVE THE RADICAL LEFT A FIELD DAY. FAILURE OF THE IMF AND OTHERS NOW TO

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ASSIST JAMAICA ON THE BASIS OF THE MEASURES NOW BEING TAKEN WOULD BE A CATASTROPHE; JAMAICA WOULD BE LOST IRRETRIEVABLY TO THE EXTREME LEFT."

6. HE SAID GOJ HAS ASKED THE IMF TO HAVE A NEGOTIATING TEAM IN KINGSTON DURING FIRST WEEK OF MAY BUT IMF IS RELUCTANT TO BE HERE AT SAME TIME AS A "US TEAM NEGOTIATING A USG ASSISTANCE PACKAGE". THE IMF IS CONCERNED THAT THE SIMULTANEOUS PRESENCE OF THE TWO GROUPS WOULD LEND CREDENCE TO THE VIEW THAT THE IMF PROBABLY WOULD BE MORE AMENABLE TO THAT TIMING IF IT UNDERSTOOD, FROM THE USG, THAT THE US TEAM IN KINGSTON AT THAT TIME IS ONLY A "FACT-FINDING"GROUP, AND NOT AN AID NEGOTIATING DELEGATION. HE EXPRESSED HOPE DEPARTMENT WOULD INTERVENE, AGAIN STATING TIMING OF

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 4919

C O N F I D E N T I A L SECTION 2 OF 2 KINGSTON 1929

IMF NEGOTIATIONS AND SUBSEQUENT AGREEMENTS ABSOLUTELY  
CRITICAL IF GOJ IS NOT TO DEFAULT IN LATE MAY.

7. ALLUDING TO EARLY MAY TALKS BETWEEN US AND JAMAICAN  
TEAMS, HE AT THIS POINT SAID THAT, WHILE IT MAY NOT BE  
POSSIBLE TO MAKE ANY ANNOUNCEMENTS AT THAT TIME OF FORMAL  
AGREEMENTS, OR COMMITMENTS, OR TOT MENTION ANY SPECIFIC  
AMOUNTS PUBLICLY, IT WOULD BE EXTREMELY HELPFUL (IN TERMS  
GOJ'S ABILITY RAISE NEEDED SHORT-TERM COMMERCIAL MONEY)  
IF ONE RESULT OF THOSE TALKS COULD BE PUBLIC ANNOUNCEMENT  
OF A USG COMMITMENT TO WORK TOWARD SIGNIFICANT EXPANSION  
OF ITS ASSISTANCE PROGRAMS-- ESPECIALLY IN AREAS THAT  
WILL HAVE BALANCE OF PAYMENTS IMPACT.

8. TURNING TO NEW TWO TIER EXCHANGE RATE, BROWN SAID  
THAT THE OLD RATE TO ALL PRACTICAL PURPOSES WILL APPLY  
ONLY TO GOVERNMENT TRANSACTIONS, BASIC FOOD IMPORTS,  
BAUXITE/ALUMINA INDUSTRY, AND TO POL IMPORTS. NEW RATE  
OTHRWISE WILL APPLY (INCLUDING TO ALL US EMBASSY TRANS-  
ACTIONS). HOWEVER, ALL BANKS WILL BE CLOSED TO ANY  
FOREIGN EXCHANGE TRANSACTIONS (EXCEPT FOR EMERGENCY  
TRAVEL REQUIREMENTS) UNTIL APRIL 27. BANKS WERE BRIEFED  
ON NEW RATE THIS PAST FRIDAY AFTERNOON AND HAVE BEEN  
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WORKING OVER WEEKEND TO HANDLE MECHANICS INVOLVED.

9. BROWN SAID HE HAD ALSO BRIEFED JAMAICAN PRIVATE  
SECTOR ORGANIZATION MORNING APRIL 23 ON NEW EXCHANGE  
SYSTEM AND THE PRODUCTION PLAN. HE COMMENTED THAT  
FOR FIRST TIME IN OVER A YEAR HE FOUND THAT GROUP  
DISPLAYED SOMETHING OTHER THAN DESPAIR. THE PRIVATE  
SECTOR GROUP WAS "PLASSANTLY SURPRISED" BY MANLEY'S  
PRESENTATION OF THE PRODUCTION PLAN, THE ASSOCIATED  
POLITICAL ANNOUNCEMENTS (E.G. PROPOSED ESTABLISHMENT  
OF AN INDEEPENDENT ELECTORAL COMMISSION, LIFTING OF THE  
STATE OF EMERGENCY, AND "OTHER CONCESSIONS TO THE  
OPPOSITION"). PRIVATE SECTOR LEADERSHIP APPEARS CON-

VINCED THAT THERE HAS INDEED BEEN A "MAJOR TURNAROUND"

BY MANLEY AND HIS GOVERNMENT, AND THAT THERE IS A POSITIVE ROLE FOR THE PRIVATE SECTOR. BROWN THINKS PRIVATE SECTOR WILL NOW "TURN TO" WITH A WILL -- IF ONLY BECAUSE THE PRESENT SITUATION MAY BE THE LAST CHANCE FOR ITS SURVIVAL. IF THE COURSE MANLEY HAS NOW EMBARKED UPON FAILS, "ALL IS LOST AND THE PRIVATE SECTOR NOW KNOWS THAT".

10. HIS CONCLUDING REMARKS WERE AN EMOTIONAL APPEAL FOR THE USG TO GIVE POSITIVE RECOGNITION TO THE FUNDAMENTAL CHANGE IN THE CHARACTER OF THE POLITICAL SITUATION HERE SINCE EARLIER THIS YEAR, AND THE NEED FOR IMMEDIATE US SUPPORT BOTH DIRECTLY, AND INDIRECTLY THROUGH ITS INFLUENCE ON THE IMF, OTHER INSTITUTIONS, AND OTHER GOVERNMENTS.

11. CHARGE PROMISED TO CONVEY HIS COMMENTS AND REQUESTS TO DEPARTMENT FOR CONSIDERATION. BROWN REPLIED THAT WHILE CONVERSATION HAD BEEN INFORMAL, HIS REQUESTS AND CONCERNS REPRESENTED THE "HOPES AND CONCERNS" OF PM MANLEY AND DEPUTY PM AND FINANCE MINISTER COORE. CONFIDENTIAL

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HE REMINDED CHARGE THAT COORE WOULD BE IN WASHINGTON THIS WEEK FOR IMF MEETING.

12. COMMENT. ALTHOUGH BROWN'S PLEA FOR HELP IN PRODDING THE IMF TO EARLY ACTION WAS MADE IN LESS THAN OFFICIAL CIRCUMSTANCES, AS WAS HIS COMMENT ON THE UTILITY OF AN EARLY PUBLIC USG COMMITMENT TO AN EXPANDED ASSISTANCE PROGRAM, WE MOST CERTAINLY CAN TREAT THEM AS REPRESENTING THE WISHING OF THE GOJ. EMBASSY HOPES WE CAN BE RESPONSIVE-- AT LEAST WITH RESPECT TO URGING EARLY ARRIVAL OF IMF TEAM. HOWEVER, WE WOULD BE CAUTIOUS ABOUT EXERTING LEVERAGE ON IMF TO HAVE IT SOFTEN ITS MUCH NEEDED STRINGENT CONDITIONS. WE ALSO FEEL WE SHOULD AVOID MAKING ANY PUBLIC STATEMENT THAT DOES NOT PRECLUDE FALSE EXPECTATIONS ON THE AMOUNT OF ASSISTANCE WE CAN PROVIDE.

13. WE DO SHARE BROWN'S ASSESSMENT THAT MANLEY HAS MADE A SIGNIFICANT TURNABOUT, HAS GONE ABOUT AS FAR AS HE CAN GO AT THIS TIME VIS-A-VIS DEVALUATION AND RELATED MEASURES, AND THAT THE POLITICAL BALANCE IS A VERY DELICATE ONE. DORRANCE

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## Message Attributes

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